

National Authority on Tobacco and Alcohol - 2022

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the National Authority on Tobacco and Alcohol for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
<p>In terms of paragraph 49 of the Sri Lanka Public Sector Accounting Standard 7, the entire class of assets which that asset belongs should be revalued at once. However, contrary to that, from among the computers and accessories belonging to the Authority, only the computers and accessories with the net value of Rs.257,180 that had been purchased prior to 2017, had been revalued to the sum of Rs.743,750 on 28 February 2022 thus showing a revaluation profit of Rs.486,570 in the financial statements of the preceding year. Furthermore, based on that revaluation amount, a sum of Rs.148,750 each depreciated annually had been brought to account for the preceding year and the year under review. Moreover, as the revaluation had been carried out by a committee without a member qualified in the profession of valuation, the accuracy of revaluation amounts as well as the date of effecting the revaluation had not been identified and disclosed in the financial statements. As such, the accuracy of applying revaluation amounts to the financial statements of the preceding year and the accuracy of depreciation amounting to Rs.297,500 adjusted relating to the preceding year and the year under review based on that revaluation, could not be satisfied.</p>	<p>From among the computers and accessories, the equipment purchased before the year 2017 had been revalued by the Authority, the Authority had made adjustments on depreciation in the preceding year and the year under review based on the revaluation carried out by the committee, these revaluation amounts are in effect from 31 December 2021, these adjustments had been made so as to take effect from that date, disclosures thereon had not been made in the financial statements of the year 2021 and that action will be taken to make disclosures in this regard in the financial statements.</p>	<p>Assets should be revalued in terms of provisions in the Sri Lanka Public Sector Accounting Standard 7.</p>

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Treasury Circular No.842 of 1978 and paragraph 02 of Management and Audit Circular No.DMA/2009 (2) of 01 September 2009	A proper Register of Fixed Assets had not been maintained so as to include the cost and revaluation amounts of property, plant and equipment and intangible assets valued at Rs.32,524,756 as at 31 December 2022 and only the Main Inventory Register had been maintained so as to indicate the number of items of assets instead.	Action will be taken to register and maintain fixed assets in terms of the circular.	A proper Register of Fixed Assets should be maintained in terms of the circular.
(b) President's Office Circular No.SP/SB/07/15 of 25 September 2015	It had been indicated in the circular that foreign aid/loans are granted to this country for no other purpose than for the development of the country and not for utilizing in programmes of high cost, essential programmes should be organized under a minimum cost and that institutions for which facilities have been provided by the Government, should be utilized therefor. However, contrary to that, 02 programmes and 02 meetings had been held in private hotels at high cost and the Authority had spent a sum of Rs.1,057,385 therefor.	That high officials participated for these programmes and meetings, quotations have been called from institutions mentioned in the circular, the programme has been held at the institution which has submitted the minimum quotation, certain programmes were held on a grand scale, a sum of Rs.3,750 has been spent per head as hall facilities and that it was of low value as compared with quotations of institutions mentioned in the circular.	In organizing programmes and meetings, expenditure should be managed in terms of the circular.

- (c) Inland Revenue Department Letter No.CGIR/2021/02-02 of 09 April 2021
- Details on Value Added Tax paid to suppliers by Government institutions and institutions owned by the Government should be sent to the Inland Revenue Department in terms of the prescribed format at the end of each quarter before the 15th day of the following month. However, the Authority had not taken action accordingly throughout the year under review.
- That it will be noted to send details on Value Added Tax paid to suppliers, to the Inland Revenue Department in terms of the prescribed format at the end of each quarter before the 15th day of the following month, action will be taken as well to immediately send details of suppliers including Value Added Tax paid in the year 2022.
- Reports should be submitted in terms of provisions of the Inland Revenue Department.
- (d) Section 6.6 of the Public Enterprises Circular No.01/2021 of 16 November 2021
- The financial statements should be furnished to the Auditor General within 60 days after the closure of the financial year. Nevertheless, the Authority had furnished the financial statements to Audit for the year under review with a delay of 22 days.
- That submission of the financial statements was delayed due to the failure in appointing the new Board of Directors for the year 2023 and to hold the meeting of the Board of Directors until 22 March 2023.
- The financial statements should be furnished to the Auditor General without delay in terms of the circular.

2. Financial Review

Financial Results

The operations of the year under review resulted in a surplus of Rs.1,043,684 as against the deficit of Rs.1,523,419 of the preceding year, thus observing an improvement of Rs.2,567,103 in the financial result. The increase in Government recurrent grants and foreign grants by 33 per cent and 74 per cent respectively had mainly attributed to this improvement.

3. Operational Review

3.1.1 Non-compliance with Powers, Duties and Functions of the Authority

Audit Observation	Comments of the Management	Recommendation
(a) According to reports of the Authority, it was observed that, the tax structure for tobacco products prevailing presently in Sri Lanka is irregular and complex, it	The President has been briefed of the non-implementation of this tax formula on 27 December 2021 by a letter. Necessary arrangements will be made once again to implement this new tax formula as a law.	Prompt action should be taken to bring the new tax formula for tobacco, into effect as a law.

comprises a total of several types of tax and even though the excise revenue on cigarettes was 7.3 per cent of the total Government revenue in the year 2016, it had dropped to 3.1 per cent by the year 2020. As such, a new tax formula has been introduced by the Authority for tobacco by incurring an expenditure of Rs.994,148 as financial grants of the World Health Organization and local funds in the years 2020 and 2021. Moreover, it had been expected that the excise revenue of Rs.91.6 billion on cigarettes in the year 2021 could be increased up to Rs.124.6 billion by the year 2026 and that it would attribute to decrease of 1.1 per cent in tobacco consumption and an annual increase of approximately 6 per cent in the Government revenue. However, the new tax formula for tobacco had not come to effect as a law even by the date of this report.

Action will be taken once again to present this tax formula in a proper manner.

- (b) In terms of Section 35(2)(c) of the National Authority on Tobacco and Alcohol Act, No.27 of 2006, it had been permitted to display, inside a place where tobacco products or alcohol products are available for sale to the public, a notice of the prescribed dimensions, identifying the tobacco products or alcohol products that are available for sale in that place and indicating their respective prices. However, regulations
- In terms of the Consumer Authority Act, the Minister has been addressed on 29 May 2022 with copies to the Secretary to the Ministry of Health to regulate to display only the price and type. As there was no response to those letters, a reminder as well had been forwarded to the Secretary to the Ministry of Health on 27 December 2022, it is not indicated in the National Authority on Tobacco and Alcohol Act, No.27 of 2006 as amended by Act, No.3 of 2015, that it is a function of the Authority to
- Execution of regulation of notices displayed in places where tobacco products or alcohol products are available for sale to the public, should be expedited.

had not been formulated relevant to the aforesaid Section and obtained Parliamentary approval. As such, it was observed that the authorized officers could not regulate notices displayed in places where tobacco products or alcohol products are available for sale to the public in terms of the Act.

- (c) In terms of paragraph 10 of the Gazette Extraordinary No.1770/15 dated 08 August 2012 of the Democratic Socialist Republic of Sri Lanka and Section 34 a(5) of the National Authority on Tobacco and Alcohol Act, No.27 of 2006 as amended by National Authority on Tobacco and Alcohol Act, No.3 of 2015, 10 health warnings had been identified in the year 2022 to expand the reserve of 08 health warnings declared as per the above Gazette to enable manufacturers of cigarette and tobacco products to change once in every six months the health warnings printed on the packets, packages or cartons of cigarettes and other tobacco products. However, they had not been categorized. Moreover, those new health warnings had not been declared by Government gazettes even up to the date of this report. As such, the Authority had failed to maximize the effectiveness of changing health warnings using only the reserve of 08 warnings during the period of about 08 years from the year

recommend health warnings with pictures or pictograms therein and to issue a compact disc relating thereto.

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Action on maximizing the effectiveness of changing health warnings should be expedited.

2015 up to the date of this report.

3.2 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
<p>The candidate (female officer) who had not fulfilled the minimum qualifications as per paragraph 4.1 of the Scheme of Recruitment of the Authority, had been recruited in May 2021 and appointed to the post of General Manager of the Authority and incurred an expenditure of Rs.1,991,574 as salaries and allowances up to June 2022. However, the service of the above officer had been terminated in July 2022 due to her inefficiency in discharging duties in the capacity of General Manager. The Authority had failed to achieve performance as expected by appointing a candidate who had not fulfilled minimum qualifications required by the Scheme of Recruitment of the Authority, to the post of General Manager in this manner. As such, it was observed that the expenditure of Rs.1,991,574 incurred, had become an uneconomic expenditure.</p>	<p>That the interview board had understood the management level, considering the salary scale received by the National Aquatic Resources Research and Development Agency where she served earlier, it was confirmed to the interview board by a letter she submitted that she had held the post of Research Assistant in that institution since the year 1993, that the interview board has given full marks for “relevant additional experience” for 13 years of the 28 year service period of the NARA institute and that the failure to make a note in the mark sheet that she has been selected and recommended to this post, was an omission.</p>	<p>As per the Scheme of Recruitment of the Authority, only the applicants with required qualifications should be recruited and necessary action should be taken by holding a formal inquiry in this regard.</p>

3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Authority had conducted certificate courses in counselling in three instances in the years 2021 and 2022 by incurring Rs.1,307,282 and issued certificates to 108 persons and 83 officers of them had been provided with the opportunity of being deployed in the above</p>	<p>As per the recommendation of the Board of Directors, the roster of Counselling Officers providing service on voluntary basis will be entered into the system on the permission of the Chairman, that we will be informed of any problematic or difficult situation when providing counselling service by these officers, a review meeting has been held on</p>	<p>Measures should be taken to strengthen the supervision of the Authority relating to counselling services provided by voluntary counselling officers.</p>

counselling service after office hours on voluntary basis without salaries or allowances. Accordingly, the total number of calls for which counselling service was provided in the year 2022 was 3,666 and 2,085 of them were provided with counselling service by voluntary counsellors. However, those voluntary officers had not reported the number of counselling services provided in 143 days to the Authority. Moreover, only the number of calls for which services were provided by voluntary officers were reported and no documentary evidence whatsoever was made available to Audit whether any evaluation had been carried out by the Authority on the quality of the counselling service they provided. As such, the supervision of the Authority on the counselling carried out by voluntary counsellors had been at a weak level.

- (b) Action had not been taken even by the date of this report, to recover from relevant officers or responsible parties the interim allowance of Rs.690,648 paid to 13 officers of the Authority contrary to Public Administration Circular No.09/2019 of 22 April 2019 and the special allowance of Rs.262,375 paid to 12 employees in the staff of the Authority from June 2021 up to August 2021 contrary to Cabinet Decision No.21/Misc (032) of 15 June 2021 and letter No.

05 November 2022 relating to providing counselling service of voluntary Counselling Officers and further discussions have been held on experiences and providing counselling service, relevant action will be taken to carry out an appropriate methodology through provision of the World Health Organization or Government grants for regularization of the service obtained from voluntary employees for increasing the quality of counselling by 1948 Quit line service through analysing the position of counselling.

Action will be taken to obtain covering approval of the Secretary of Health for the special allowance paid while action will also be taken according to the Public Administration Circular No.09/2019 of 22 April 2019 to obtain approval for the allowance paid.

The interim allowance and special allowance paid, should be recovered from recipients or responsible parties.

MIN/add/See/Admin/16/21 of
16 June 2021 of the Secretary
to the Ministry of Health.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
An internal audit had not been carried out for the Authority relating to the year under review in terms of paragraph 4.4 of the Public Enterprises Circular No.01/2021 of 16 November 2021.	The post of Internal Auditor had not been approved for the Authority, that an internal audit should be carried out by the Ministry of Health, that an internal audit had not been carried out due to lack of staff in the Internal Audit Unit of the Ministry.	An internal audit should be carried out.